

(323) 881-2401

August 20, 2002

TO: EACH SUPERVISOR

FROM: P. MICHAEL FREEMAN

**FIRE DISTRICT FINANCIAL UPDATE AND
2002-03 SPECIAL TAX RECOMMENDATION**

The purpose of this memorandum is to provide your Honorable Board with a financial update on the Fire District and to advise you of our proposed recommendation for an increase in the Special Tax for 2002-03.

FIRE DISTRICT FINANCIAL UPDATE

The Fire District's 2002-03 Budget maintains current service levels for both emergency and business operations and includes \$16 million in revenue from the proposed partial recovery of ERAF owed the District by the State. Although the District prevailed in the Superior Court on July 11, 2002, the State will probably appeal the ruling, and it is uncertain when we will begin receiving the ERAF revenue.

Until this ERAF issue is resolved and repayment begins, we are implementing a District Contingency Funding Plan (attached) to maintain District operations. The objective of the Contingency Funding Plan is to continue current levels of emergency operations for two fiscal years without the annual \$16 million from the State. There are four major components of this plan:

- Use one-time funds from our Accumulated Capital Outlay (ACO) Fund. Although no specific planned projects will be immediately affected, this will deplete funding for future construction projects, including fire stations. If the ERAF revenue is received, the ACO Fund will be replenished.

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- Seek accelerated General Fund payment of retroactive Lifeguard overhead for an additional \$2.5 million in 2003-04 above the planned \$2.5 million in 2002-03 and 2003-04.
- Defer the purchase of fire engines and other vehicles.
- Increase the Special Tax to its voter-approved limit.

Even with these significant financial adjustments, the District is projecting minimal ending fund balances of only \$15.4 million (2.6%) for 2002-03 and \$8.2 million (1.4%) for 2003-04. These fund balances are significantly lower than the generally recommended fund balances of 3 to 5 percent (about \$17-\$30 million based on this year's budget) that we try to maintain.

2002-03 SPECIAL TAX RECOMMENDATION

The Special Tax, approved by 77% of the voters in 1997 as a permanent, ongoing replacement for the District's Benefit Assessment, was approved at a rate of \$48 annually for a single-family residence. That amount, with the 2% annual escalator increasing the "cap" each year, results in the maximum rate of \$52.93 recommended for 2002-03.

Since its inception, the Special Tax has never been levied at the voter-approved maximum limit because it was not necessary to do so. For 2002-03, there is a need to increase the Special Tax to its limit of \$52.93, a \$4.27 annual increase over the current rate for a single-family residence. This additional revenue of \$4.6 million this fiscal year will enable the District to maintain current emergency service levels, which is precisely what the voters approved the tax to do.

We will submit our report and recommendation on the Special Tax for Board consideration at your meeting of September 10, 2002. The Independent Citizens Oversight Committee will meet on August 28, 2002, and they will submit their report to your Board separately prior to the Board's consideration of the issue on September 10. I will also communicate our need for this increase to the cities we serve.

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I will be scheduling meetings with you and your staffs for next week to discuss our recommendation with you and answer any questions you may have. If you have any questions prior to our meetings, please call me.

PMF:EDW:em

Attachment

c: David E. Janssen, Chief Administrative Office
Lloyd W. Pellman, County Counsel
J. Tyler McCauley, Auditor-Controller
Louisa Ollague, First District
Randi Tahara, Second District
Joseph Charney, Third District
Matt Knabe, Fourth District
Jennifer Plaisted, Fifth District

**DISTRICT CONTINGENCY
FUNDING PLAN**
(in millions)

	Fiscal Year 2002-03	Fiscal Year 2003-04
Projected Ending Fund Balance (Fiscal Forecast Update #9 - 8/20/02)	\$13.2	\$4.0
	<u>Changes to Fiscal Forecast</u>	
<u>Expenditure Curtailments:</u>		
Defer Fire Apparatus Lease-Purchase	\$1.1	\$2.2
Defer Other Automotive & Utility Vehicle Purchases	\$3.0	\$3.0
<u>Revenue Changes:</u>		
Delete Retroactive ERAF Revenue included in Proposed Budget	(\$16.0)	(\$16.0)
Transfer ACO funds to Operating Budget	\$9.5	\$4.5
Accelerate Retroactive Lifeguard Overhead Payments by General Fund	\$0.0	\$2.5
Increase Special Tax to Voter-Authorized Limit	\$4.6	\$5.8
<i>Fund Balance Change</i>	--	\$2.2
Revised Projected Fund Balance	\$15.4	\$8.2